home oil company limited

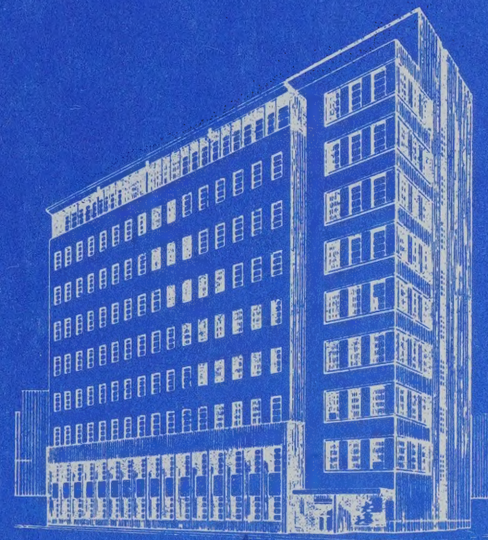
annual report 1970

and Subsidiary Companies

IGS
70

	1970	1969
......	$18,945,000	$16,468,000
......	2,982,000	3,491,000
	21,927,000	19,959,000
......	2,896,000	2,559,000
......	2,865,000	3,052,000
......	4,142,000	2,408,000
......	1,478,000	1,354,000
......	5,816,000	3,533,000
......	1,356,000	1,505,000
	18,553,000	14,411,000
......	3,374,000	5,548,000
......	1,648,000	1,467,000
......	1,726,000	4,081,000
......	1,465,000	—
	$ 261,000	$ 4,081,000
......	$ 0.25	$ 0.60
......	(0.21)	—
......	$ 0.04	$ 0.60

ccounting for its investments in 50% owned companies.
f such companies is reflected currently in income rather
jures for 1969 have been restated to reflect this change.
l in its depletion calculation, exploration expenditures
es have been restated to reflect the exclusion of these



HOME OIL COMPANY LIMITED

INTERIM REPORT
to the
SHAREHOLDERS

For the Nine Months ended
September 30, 1970

CALGARY, ALBERTA NOVEMBER 12, 1970

TO THE SHAREHOLDERS:

FINANCIAL & OPERATIONS

In view of the monetary and economic conditions which have prevailed for some time, the Company has taken a series of steps since the beginning of the year to improve its financial position:—

- earlier in the year, 475,000 shares of Calgary Power Ltd. were sold for a total of $10,105,000, the proceeds being used to reduce current bank loans.
- during the third quarter, the Company's 2% interest in the Trans Alaska Pipeline System was sold, at cost, to a number of the other owners.
- effective September 1, 1970 the Company converted $10,000,000 of its current bank indebtedness into a six-year production loan.
- early in October, the Company sold 500,000 common shares of TransCanada PipeLines Limited for approximately $15,500,000. The proceeds were used to reduce the German Bank Loan.
- arrangements are presently being concluded with the two institutional holders of the 6-1/8% and 5-7/8% secured bonds of Home Oil and United Oils, Ltd. to renegotiate the terms of such bonds. The repayment of these bonds was based on the rate of production from our Swan Hills and Virginia Hills oilfields. Because this production has been greater than originally forecasted, the bonds are being repaid at a faster rate than anticipated. The purpose of the renegotiation is to reduce the future rate of repayment with interest rates being increased accordingly. This would reduce our repayments during the next 5 years by at least $15,000,000.

These steps not only place the Company in a much stronger financial position, but they will also substantially improve cash flow and earnings in future years.

For the first nine months of 1970 net earnings before extraordinary items amounted to $1,726,000 or 25 cents per share compared with $4,081,000 or 60 cents per share for the corresponding period of 1969. After including an extraordinary loss of $1,465,000, net earnings for the period were $261,000 or 4 cents per share. As previously reported, the extraordinary loss arose principally from the sale of shares of Calgary Power Ltd., however this will be offset during the fourth quarter by an extraordinary gain of $2,816,000 realized on the sale of TransCanada shares in October. Net flow of funds from operations was $8,879,000 or $1.27 per share compared with $9,316,000 or $1.37 per share in 1969.

Net earnings and cash flow were adversely affected by higher interest costs and net earnings were further reduced by increased charges for depletion related to exploration expenditures in Alaska. Prior to January 1, 1970 Alaskan exploration costs had been deferred for depletion purposes.

Gross revenue for the first nine months of 1970 amounted to $21,927,000, 9.9% higher than the gross revenue of $19,959,000 for the same period in 1969. Crude oil and natural gas liquids production averaged 18,178 barrels per day, an increase of 14% compared with 15,952 barrels per day in 1969. Sales of natural gas amounted to 88.4 million cubic feet per day, 35% greater than the 65.7 million cubic feet per day sold during the first nine months of 1969. The results of the LPG marketing division continue to show a considerable improvement over last year.

EXPLORATION

During the past year, world wide attention has been focused on a number of major oil discoveries in the North Sea. As reported earlier, a consortium in which Home's United Kingdom subsidiary has a 6-3/8% interest was awarded an exploration permit on Block 30/2 in the United Kingdom portion of the North Sea. This block containing 55,856 acres is located directly between recently announced oil discoveries by British Petroleums Ltd. and Phillips Petroleum Company. BP 21/10-1 which lies eighty miles to the northwest tested at a rate of 4,700 barrels of oil per day while Phillips 2/7-1 lying 40 miles to the southeast is classed as a major oil discovery. Two other discovery wells of interest, Amoco 22/18-1 approximately 40 miles to the northwest, and Phillips 30/13-1, 18 miles to the southeast, flowed on test at the rate of 2,160 and 900 barrels of oil per day respectively. Block 30/2 is within 35 miles of the Ekofisk oil field which has estimated oil reserves of seven billion barrels. The Cod gas-condensate field is also located within 10 miles of this block (See Map). A contract to drill an exploratory well, 30/2-1, by the "Sea Quest" has been signed and drilling will commence in the near future. The Company is also participating in a seismic program covering a portion of the North Sea on which additional permits will be offered in 1971.

Home's United Kingdom subsidiary is currently drilling an exploratory well, Malton No. 1, in Yorkshire. The well commenced drilling on August 30 and is located approximately 12 miles to the southwest of the Lockton Gas Field. Three additional exploratory wells are also planned for Yorkshire during the coming months together with the Lockton 8 development well. Completion of the Lockton Gas Plant, which is currently under construction, is scheduled for the first quarter of 1971.

During the third quarter, the Company participated in the drilling of two exploratory wells in the Brazeau area of Alberta. One well was dry and abandoned and the other is presently testing for gas production.

One development well, which is now being completed as an oil well, was drilled in the Alhambra area.

OUTLOOK

The future for natural gas production continues to be excellent. During the first seven months of 1970 domestic demand showed an increase of 8% over the same period in 1969. The energy shortage in the United States which has become so apparent during the past few months assures our industry of markets for new discoveries, as and when they are made. In order to provide the incentive to maintain the exploration pace necessary to meet future demand, it is essential that realistic wellhead prices are maintained throughout North America.

In September, 1970, the National Energy Board granted permits authorizing the export from Canada of an additional 6.3 trillion cubic feet of gas to four existing natural gas exporters. The permits were for terms ranging from fifteen to twenty years and represent an estimated $2 billion worth of natural gas. TransCanada PipeLines Limited, in which the Company holds 800,000 common shares, received permits to

port 1.9 trillion cubic feet of this increase over a twenty-
ar period. This brings their total export licenses to ap-
oximately 5.4 trillion cubic feet. As a result of the increase
exports TransCanada will construct an additional ninety-
ree miles of pipeline in Manitoba and Ontario.

In 1959, the pricing structure of Canadian crude oil was odified to reflect the pressures of foreign crude and roducts available to the Ontario market. During the inter- ening eleven years the price of Alberta crude has not flected fully either the changes in the value of the Canadian ollar or increases in the price of United States crude.

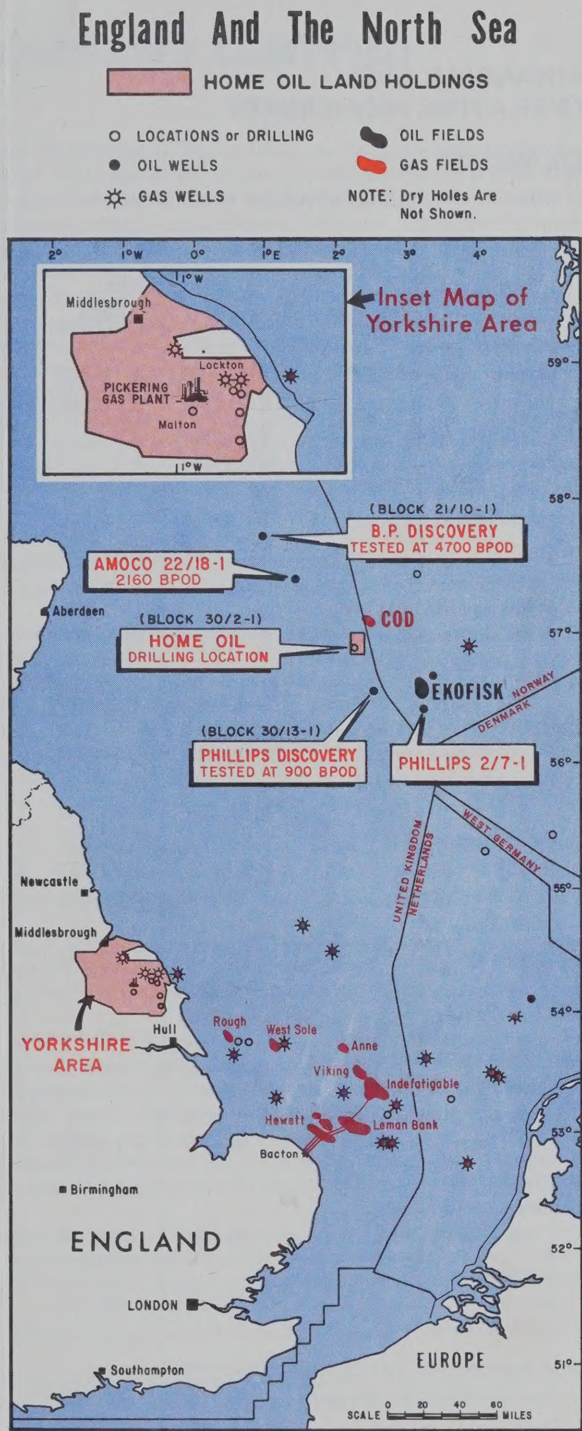
At the present time, Canadian crude can be delivered into ne Chicago market area at approximately 35 cents U.S. er barrel cheaper than comparable West Texas crude. This fferential, we believe, warrants an increase in the price of anadian crude.

The United States Government eased restrictions on anadian crude oil imports during the latter part of Sep- mber, 1970. Natural gas liquids, estimated to be at least),000 barrels per day, were exempted from the present ude oil quota of 395,000 barrels per day to Districts I to /. This change together with exemptions for hardship ises has the immediate effect of increasing the total imports f Canadian crude oil by an estimated 80,000 barrels per ay. We are hopeful that when the new quotas are set for ne first quarter of 1971, a large percentage of the Canadian idustry's present additional productive capacity will be tilized. Based on today's circumstances, Home's share of ny incremental crude oil markets would be approximately %.

A dividend of 25 cents per share has been declared on ne Class A and Class B shares payable January 1, 1971 to nareholders of record on December 4, 1970.

President and Managing Director

algary, Alberta
lovember 12, 1970



FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL

(Dollars in thousands except per share amounts)

	Nine Months 1970	Nine Months 1969
Net earnings before extraordinary item	$ 1,726	$ 4,081
Per share	$ 0.25	$ 0.60
Extraordinary item	$ (1,465)	$ —
Per share	$ (0.21)	$ —
Net flow of funds from operations	$ 8,879	$ 9,316
Per share	$ 1.27	$ 1.37
Balance Sheet items at September 30		
Working capital (deficiency)	$ (13,973)	$ (38,538)
Investment in other companies - at cost	$ 92,623	$102,026
Property, plant and equipment - net	$163,299	$146,700
Long term debt (less current maturities)	$ 92,239	$ 61,073
Deferred income taxes	$ 24,701	$ 22,268
Capital Stock	$ 94,772	$ 93,733
Retained earnings	$ 32,254	$ 34,172
Other assets and deferred charges	$ 2,017	$ 1,058

OPERATING

	1970	1969
Production and Sales		
Crude oil and natural gas liquids production - barrels per day	18,178	15,952
Natural gas sales — thousands of cubic feet per day	88,438	65,723
Sulphur sales — long tons	32,338	26,703
Daily Average Pipe Line Gatherings (barrels)		
Cremona Pipe Line Division	38,712	37,705
Federated Pipe Lines Ltd.	178,425	158,869

HOME OIL COMPANY LIMIT

CONSOLIDATED STATEMENT OF EAF

For the Nine Months ended September 3(

REVENUE

Operating revenue . . . .

Investment and other income (Note 1)

EXPENSE

Operating . . . .

General and administrative . . . .

Depletion (Note 2) . . . .

Depreciation . . . .

Interest and expense on long term debt

Other interest . . . .

Net earnings before deferred income ta

DEFERRED INCOME TAXES . . . .

NET EARNINGS before extraordinary ite

EXTRAORDINARY ITEM

Loss on sale of investments - net . . . . .

NET EARNINGS

EARNINGS PER SHARE

Net earnings before extraordinary ite

Extraordinary item . . . .

Net earnings . . . .

NOTES:

(1) In 1970 the Company adopted the equity metho
Under this method the Company's share of the earni
than when realized through dividends. The comparat
(2) Commencing January 1, 1970 the Company in
made on the North Slope of Alaska. Comparative
expenditures from the depletion calculation in 1969

HOME OIL COMPANY LIMITED

TO THE SHAREHOLDERS:

Net earnings for the first quarter of 1970 amounted to $1,219,000 or 17¢ per share as compared with $1,374,000 or 21¢ per share in the first quarter of 1969. Net flow of funds from operations amounted to $3,833,000 or 55¢ per share as compared with $3,201,000 or 48¢ per share for the same period in 1969.

Net earnings and cash flow were adversely affected by higher interest costs. Effective January 1, 1970, the Company included Alaskan exploration expenditures in its depletion calculation and this further reduced net earnings. Prior to that date Alaskan exploration expenditures had been deferred for depletion purposes.

Gross revenue for the first quarter of 1970 amounted to $8,090,000, an increase of 20% over a comparable amount of $6,735,000 in 1969. Crude oil and natural gas liquids production increased 24% to 21,307 barrels per day from 17,138 barrels per day in 1969. Natural gas sales averaged 97.1 million cubic feet per day, an increase of 42% over the 68.5 million cubic feet per day for the comparable period in 1969. Sulphur sales increased to 9,329 long tons, as compared to 8,251 long tons in 1969. The LPG marketing division showed a substantial improvement over last year.

The substantially higher sales of crude oil, natural gas and natural gas liquids experienced in the first quarter of 1970 have not carried through into the second quarter. Sales of natural gas and natural gas liquids are seasonally higher in the first quarter of the year than in the second and third quarters and therefore a decline in production in the second quarter is normal. The demand for crude oil in the first quarter of 1970 was exceptionally high because of greatly increased exports of crude oil to the U.S. Midwest. In March, 1970 President Nixon ordered cutbacks in Canadian crude imports to this area to 395,000 barrels per day.

Home Oil is fortunate in having a large portion of its oil reserves in the high reserve pools in the Province of Alberta. The production levels attained in the first quarter of 1970 are indicative of the effect on Home of an increased demand for Canadian crude.

The outlook for the sale of natural gas can be described as the most favourable in the Company's history. U.S. demand for natural gas seems to be almost limitless, at a time when the development of its own reserves is failing to keep up with domestic requirements. Not only will there be an excellent market for all the gas we can produce but natural gas prices will be substantially higher than they were when our natural gas first began to move into the export market.

The unexpectedly sharp cutback ordered by President Nixon in imports of Canadian crude into the U.S. Midwest is one of the major problems confronting the Canadian oil industry. This cutback has been made in the face of strong pressure from U.S. consumer and refining interests in the area. It is felt that there is reason for optimism that the cutback will not be too long sustained. Even should the United States administration persist in holding imports at the level established by President Nixon, exports in 1970 will still represent a substantial gain over last year.

What must be noted however, is the reluctance of the Canadian Government to move resolutely to protect the interests of the Canadian oil producers the way the U.S. Government protects American interests. If our government will enforce the National Oil Policy and expand the eastern Canadian markets for oil, we can confidently look forward to a steady growth in our production in both the short and the long term.

Subsequent to the end of the year, 475,000 shares of Calgary Power Ltd. were sold for a net consideration of $10,100,000, the proceeds of which were used to reduce bank indebtedness. Along with other companies, Home Oil has arranged with Trans-Canada Pipe Lines Limited for an interest-free prepayment of $1,700,000 to be applied against future natural gas purchases from certain fields.

During the first quarter, the Company participated in the drilling of a total of four exploratory wells in Alberta, one of which was a gas discovery in the Brazeau area and three were dry and abandoned. In Alaska, the Bush Federal #1 well, located 40 miles southwest of the Prudhoe Bay major oil discoveries, is currently drilling below 13,000 feet. Nora Federal #1, the first well drilled by the Company on the North Slope, was dry and abandoned at 17,658 feet.

The Company had an interest in seven exploratory wells drilled on its lands by other companies of which one was a gas discovery in the Manyberries area of Alberta, one is currently drilling and the remainder were dry and abandoned. One development gas well was completed in the Marten Hills area. Geophysical surveys have been run mainly in northeastern British Columbia and the Alaska North Slope.

In the United Kingdom, the Company is participating with a group of companies in applying for another licence in the United Kingdom portion of the North Sea. The decision on this application should be announced shortly. Construction of a natural gas processing plant to serve the Lockton Field in Yorkshire is progressing satisfactorily and further development and exploratory drilling is planned in the area.

The Company has increased its mineral exploration activities by participating in 12 ventures of which 9 are in British Columbia, 2 in Ontario, and 1 in New Brunswick.

The Annual Meeting of Shareholders was held at the Head Office of the Company in Calgary, Alberta on April 23, 1970. Shareholders representing 1,608,657 Class B shares were present, either in person or by proxy, representing 70% of the Class B shares entitled to vote at the meeting.

R. A. Brown Jr.
President

Calgary, Alberta
May 7, 1970

D and Subsidiary Companies

NINGS
1970

	1970	1969
. . . .	$18,945,000	$16,468,000
. . . .	2,982,000	3,491,000
	21,927,000	19,959,000
. . . .	2,896,000	2,559,000
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. . . .	1,465,000	–
	$ 261,000	$ 4,081,000
n	$ 0.25	$ 0.60
. . . .	(0.21)	–
. . . .	$ 0.04	$ 0.60

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e figures for 1969 have been restated to reflect this change.
uded in its depletion calculation, exploration expenditures
figures have been restated to reflect the exclusion of these

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

For the Nine Months ended September 30, 1970

	1970	1969
FUNDS WERE OBTAINED FROM		
Net earnings before extraordinary item	$ 1,726,000	$ 4,081,000
Add charges to earnings not requiring funds including depreciation, depletion and deferred income taxes	7,153,000	5,235,000
Net flow of funds from operations	8,879,000	9,316,000
Issuance of capital stock	1,040,000	38,975,000
Sale of investments	10,168,000	–
Long term borrowings – net	11,680,000	3,006,000
	$31,767,000	$51,297,000
FUNDS WERE USED FOR		
Property, plant and equipment	$14,585,000	$29,987,000
Repayment of long term debt	8,450,000	6,024,000
Dividends	2,634,000	3,501,000
Investment in Atlantic Richfield Company	–	7,654,000
Net increase in other non-current assets	1,114,000	353,000
	26,783,000	47,519,000
Increase in working capital	4,984,000	3,778,000
	$31,767,000	$51,297,000

HOME OIL COMPANY LIMITED

TO THE SHAREHOLDERS:

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R. A. Brown Jr.
President

Calgary, Alberta
May 7, 1970

HOME OIL COMPANY LIMITED and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS

For the Three Months ended March 31, 1970

	1970	1969
REVENUE		
Operating revenue	$7,140,000	$5,820,000
Interest and dividends	950,000	915,000
	8,090,000	6,735,000
EXPENSE		
Operating	904,000	842,000
General and administrative	921,000	956,000
Depletion (Note)	1,377,000	762,000
Depreciation	485,000	438,000
Interest and expense on long term debt	2,011,000	1,119,000
Other interest	441,000	633,000
	6,139,000	4,750,000
Net earnings before deferred income taxes	1,951,000	1,985,000
DEFERRED INCOME TAXES	732,000	611,000
NET EARNINGS	$1,219,000	$1,374,000
NET EARNINGS PER SHARE	$ 0.17	$ 0.21

NOTE: Commencing January 1, 1970 the Company included in its depletion calculation, exploration expenditures made on the North Slope of Alaska. Comparative figures have been restated to reflect the exclusion of these expenditures from the depletion calculation in 1969.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

For the Three Months ended March 31, 1970

FUNDS WERE OBTAINED FROM	1970	1969
Net earnings	$1,219,000	$1,374,000
Add charges to earnings not requiring funds including depreciation, depletion and deferred income taxes	2,614,000	1,827,000
Net flow of funds from operations	3,833,000	3,201,000
Issuance of capital stock	—	39,082,000
Sale of investments	4,184,000	—
	$8,017,000	$42,283,000

FUNDS WERE USED FOR	1970	1969
Property, plant and equipment	$6,421,000	$ 5,522,000
Repayment of long term debt	2,821,000	2,634,000
Investments		
Atlantic Richfield Company	—	607,000
Sinclair Oil Corporation	—	4,109,000
Trans-Canada Pipe Lines Limited	—	338,000
Other investments - net	41,000	136,000
	9,283,000	13,346,000
Increase (decrease) in working capital	(1,266,000)	28,937,000
	$8,017,000	$42,283,000

AR14

FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL

(Dollars in thousands except per share amounts)

	Three Months 1970	Three Months 1969
Net earnings	$ 1,219	$ 1,374
Per share	$ .17	$ .21
Net flow of funds from operations	$ 3,833	$ 3,201
Per share	$ .55	$ .48
Balance Sheet Items at March 31		
Working capital (deficiency)	$ (20,224)	$ (13,378)
Investments in other companies	$ 99,338	$ 98,612
Property, plant and equipment - net	$158,802	$124,468
Long term debt (less current maturities)	$ 86,187	$ 61,458
Deferred income taxes	$ 23,818	$ 21,412
Capital Stock	$ 93,732	$ 93,840
Retained earnings	$ 35,298	$ 34,402
Other assets and deferred charges	$ 1,119	$ 1,410
OPERATING		
Production and Sales		
Crude oil and natural gas liquids production — barrels per day	21,307	17,138
Natural gas sales — thousands of cubic feet per day	97,084	68,533
Sulphur sales — Long tons	9,329	8,251
Daily Average Pipe Line Gatherings		
Cremona Pipe Line Division	42,792	39,838
Federated Pipe Lines Ltd.	192,400	162,676

HOME OIL COMPANY LIMITED

INTERIM REPORT to the SHAREHOLDERS

FIRST QUARTER ENDED

MARCH 31, 1970

CALGARY, ALBERTA MAY 7, 1970

and Subsidiary Companies

NGS | AR14

	1970	1969
. . .	$12,733,000	$11,085,000
. . .	1,904,000	1,884,000
	14,637,000	12,969,000
. . .	1,857,000	1,729,000
. . .	1,934,000	1,980,000
. . .	2,746,000	1,527,000
. . .	978,000	897,000
. . .	3,878,000	2,293,000
. . .	869,000	961,000
	12,262,000	9,387,000
. . .	2,375,000	3,582,000
. . .	1,129,000	1,047,000
. . .	1,246,000	2,535,000
. . .	1,469,000	—
. . .	$ (223,000)	$ 2,535,000
. . .	$ 0.18	$ 0.38
. . .	(0.21)	—
. . .	$ (0.03)	$ 0.38

counting for its investments in 50% owned companies.
such companies is reflected currently in income rather
res for 1969 have been restated to reflect this change.
s depletion calculation, exploration expenditures made
restated to reflect the exclusion of these expenditures

HOME OIL COMPANY LIMITED

file

INTERIM REPORT to the SHAREHOLDERS

FOR THE FIRST HALF OF 1970

CALGARY, ALBERTA AUGUST 14, 1970

TO THE SHAREHOLDERS:

Net earnings before extraordinary items for the first half of 1970 amounted to $1,246,000 or 18 cents per share compared with $2,535,000 or 38 cents per share for the same period in 1969. After including an extraordinary loss of $1,469,000, a net loss of $223,000 for the period or 3 cents per share resulted. The extraordinary loss arose principally from the sale of 300,000 shares of Calgary Power Ltd. Net flow of funds from operations amounted to $6,103,000 or 87 cents per share compared with $6,043,000 or 90 cents per share in 1969. Higher interest costs contributed to the decrease in net earnings. In addition, effective January 1, 1970, the Company included Alaskan exploration expenditures in its depletion calculation and this further reduced net earnings. Prior to that date such expenditures were not included in the depletion calculation.

Gross revenue for the first six months of 1970 amounted to $14,637,000 an increase of 13% over gross revenue of $12,969,000 in 1969. Crude oil and natural gas liquids production increased 15% to 18,578 barrels per day from 16,199 barrels per day in 1969. Natural gas sales averaged 86.6 million cubic feet per day, an increase of 28% over the 67.8 million cubic feet per day sold during the same period in 1969. Sulphur sales increased to 26,353 long tons as compared with 18,828 long tons for the previous year. Offsetting the increase in the quantity of sulphur sold was a decline in the average amount realized from $30 per ton during the first half of 1969 to $9.50 per ton in 1970. The LPG marketing division again showed a considerable improvement over last year.

The market value of the Company's investments in Atlantic Richfield Company, Trans-Canada PipeLines Limited and Calgary Power Ltd. has fallen significantly since December 31, 1969, reflecting the general decline in security markets in North America. At July 31, 1970 the market value of these investments totalled $67,380,000 compared with an acquisition cost of $87,093,000. The decline in the value of the Atlantic Richfield shares has, in part, been brought about by the delay in the granting of a Permit authorizing the construction of the 48 inch Trans Alaska oil pipeline from Prudhoe Bay to Valdez, Alaska.

During the first six months the company participated in the drilling of nine exploratory wells of which seven were dry and abandoned, and two were gas discoveries, both in the Brazeau area. Two other wells were drilling in the Brazeau area at the end of this period. On the Alaska North Slope the Nora Federal No. 1 well was abandoned in April at a total depth of 17,658 feet, and the Bush Federal No. 1 well was abandoned early in August at a total depth of 16,090 feet.

The company had an interest in eight exploratory wells drilled on its lands by other companies, of which seven were dry and abandoned, and one was a gas discovery in the Manyberries area. In addition two wells were being drilled, one in the Waterton area in Alberta, and the other on Walpole Island in Ontario. Two development gas wells were drilled during this period, one in the Marten Hills area, and the other near Bashaw.

In June, the British Government awarded Home Oil of Canada Limited a 6-3/8% interest in a license on Block 30/2 in the North Sea. The Block is located in the Tertiary basin 40 miles northwest of the recently announced Ekofisk oil discovery and in close proximity to the Cod Field gas-condensate discovery. In view of the extreme interest generated by these major discoveries, a map of the area is included in this report. The results of recent surveys in the license area are currently being evaluated and, subject to the availability of a drilling rig, a well may be spudded before the end of the year.

Home Oil of Canada Limited is also planning an aggressive exploration program in Yorkshire during the second half of the year. In addition to the drilling of the Lockton 8 development well the Company is presently planning to drill three additional exploratory wells.

Construction of the natural gas processing plant to serve the Lockton field in Yorkshire is progressing satisfactorily and it is estimated that production will commence in January, 1971.

The prospects for greatly increased exports of Canadian crude oil, in the near future, are extremely encouraging. There is every indication that the United States Government is under heavy pressure from refiners in the Midwestern States to eliminate the cutback in Canadian crude imports ordered by President Nixon in

March, 1970. World tanker shortages together with political and economic sanctions imposed against U.S. oil companies in the Middle East have forced the price of offshore crude in the United States to a premium over that of domestic crude. The security aspect is of even greater importance, not only to the United States but to Canada, and it is hoped that both Governments will do everything possible to encourage the massive exploration programs that must be undertaken to reduce our reliance on foreign crude. It is also clear that greater efforts must now be made to settle the problems associated with the granting of a permit to the Trans Alaska Pipeline System.

A six member group headed by TransCanada PipeLines Limited recently announced commencement of a joint research and feasibility study of a proposed gas line from Prudhoe Bay, Alaska across Canada to Emerson, Manitoba. The planned 2,500 mile line would cost an estimated $2.5 billion and would require approximately 1.5 million compressor horsepower to provide a daily throughput capacity of about 3 billion cubic feet. Participating in the study with TransCanada are the three main Prudhoe Bay producers and two U.S. natural gas pipeline companies. Home continues to have a substantial interest in the affairs of TransCanada PipeLines Limited through its ownership of 1,300,000 common shares.

The Company is concerned about many aspects of the Government of Canada's White Paper on Tax Reform. On June 2, 1970 a brief was presented to the House of Commons Standing Committee on Finance, Trade and Economic Affairs expressing the Company's opposition to many of the proposals in the White Paper.

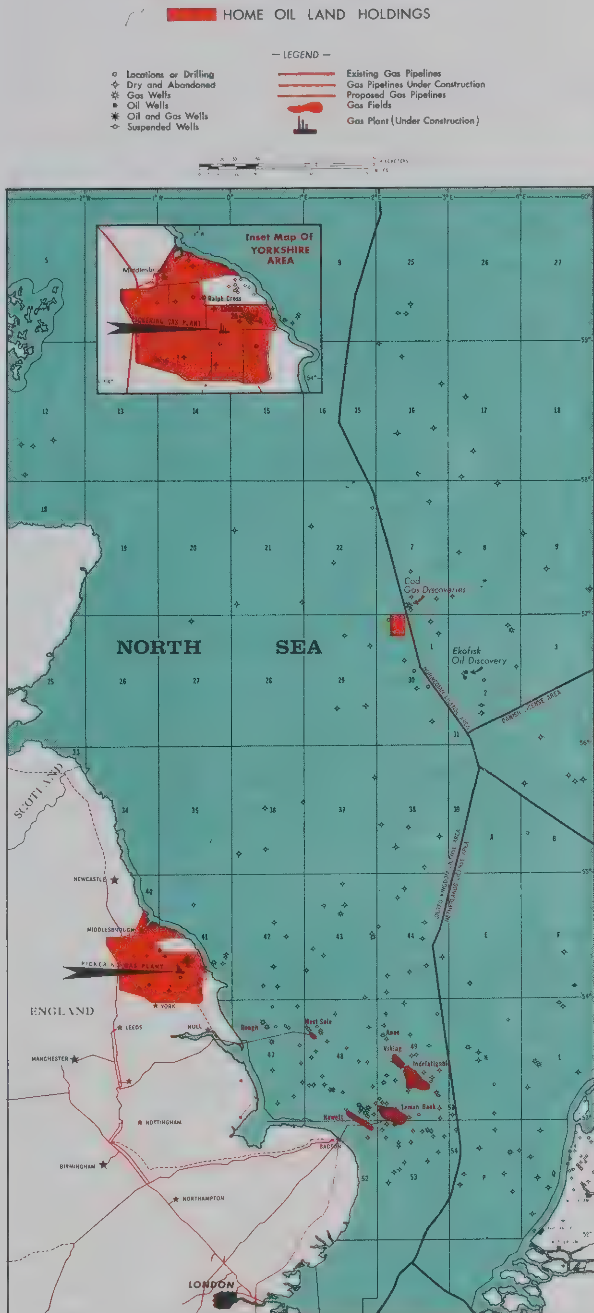
At a meeting of the Board of Directors on May 20, 1970 the Directors declared a dividend of 25 cents per share on the Company's Class A and Class B shares payable July 1, 1970 to shareholders of record, June 5, 1970.

R. A. Brown Jr.

President

Calgary, Alberta
August 14th, 1970

MAP OF
ENGLAND AND THE NORTH SEA



HOME OIL COMPANY LIMI

FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL

(Dollars in thousands except per share amounts)

	Six Months 1970	Six Months 1969
Net earnings before extraordinary item	$ 1,246	$ 2,535
Per share	$ 0.18	$ 0.38
Extraordinary item	$ (1,469)	$ —
Per share	$ (0.21)	$ —
Net flow of funds from operations	$ 6,103	$ 6,043
Per share	$ 0.87	$ 0.90
Balance Sheet Items at June 30		
Working capital (deficiency)	$ (21,647)	$ (20,802)
Investments in other companies	$ 92,513	$ 99,168
Property, plant and equipment — net	$163,829	$131,708
Long term debt (less current maturities)	$ 84,338	$ 62,837
Prepayment of future gas sales	$ 1,680	$ —
Deferred income taxes	$ 24,205	$ 21,848
Capital Stock	$ 93,802	$ 93,748
Retained earnings	$ 31,777	$ 32,626
Other assets and deferred charges	$ 1,107	$ 985

OPERATING

	1970	1969
Production and Sales		
Crude oil and natural gas liquids production — barrels per day	18,578	16,199
Natural gas sales — thousands of cubic feet per day	86,611	67,780
Sulphur sales — long tons	26,353	18,828
Daily Average Pipe Line Gatherings		
Cremona Pipe Line Division	39,543	38,501
Federated Pipe Lines Ltd.	178,832	154,431

CONSOLIDATED STATEMENT OF EA

For the Six Months ended June 30, 1970

REVENUE

Operating revenue . . . .
Investment and other income (Note 1)

EXPENSE

Operating . . . .
General and administrative . . . . .
Depletion (Note 2) . . . .
Depreciation . . . .
Interest and expense on long term debt
Other interest . . . .

Net earnings before deferred income ta

DEFERRED INCOME TAXES . . . . .

NET EARNINGS before extraordinary ite

EXTRAORDINARY ITEM

Loss on sale of investments - net . . .

NET EARNINGS (LOSS) . . . .

EARNINGS PER SHARE

Net earnings before extraordinary ite
Extraordinary item . . . .

Net earnings (loss) . . . .

NOTES:
(1) In 1970 the Company adopted the equity metho
Under this method the Company's share of the earni
than when realized through dividends. The comparat
(2) Commencing January 1, 1970 the Company incluc
on the North Slope of Alaska. Comparative figures ha
from the depletion calculation in 1969.

annual report 1970

HOME OIL COMPANY LIMITED AND SUBSIDIARY COMPANIES

Incorporated under the Laws of Canada

DIRECTORS

*James B. Weir, O.B.E., E.D.,
Montreal, Quebec
Chairman of the Board of the Company; Chairman of the Board of Oswald, Drinkwater & Graham Ltd.

*Robert A. Brown, Jr., D.U.C.,
Calgary, Alberta
President and Managing Director of the Company; Chairman and President of Cygnus Corporation Limited; President of Natural Resources Growth Fund Ltd.; Director of TransCanada PipeLines Limited, Crown Trust Company, Calgary Power Ltd., Great Lakes Gas Transmission Company, Great Lakes Paper Co. Ltd.

*Robert W. Campbell,
Calgary, Alberta
Executive Vice-President and General Manager of the Company; Executive Vice-President and Director of Cygnus Corporation Limited; Vice-President and Director of Natural Resources Growth Fund Ltd.; Director of TransCanada PipeLines Limited.

The Rt. Hon. The Earl Beatty, D.S.C.,
London, England
Chairman of the Board of Home Oil of Canada Limited.

Marsh A. Cooper,
Toronto, Ontario
President and Managing Director of Falconbridge Nickel Mines Limited; Chairman of the Board of McIntyre Porcupine Mines Limited; Director of the Granby Mining Co. Ltd., Jefferson Lake Petrochemicals of Canada Ltd., Natural Resources Growth Fund Ltd., Crown Life Insurance Company, Bridge & Tank Co. of Canada Ltd., Canadian Imperial Bank of Commerce, Mogul of Ireland Limited, Granisle Copper Limited, Texas Eastern Transmission Corporation.

E. Fred Davis,
Los Angeles, California
Consultant to the Company.

*Mervyn A. Dutton,
Calgary, Alberta
Chairman of the Board of Chinook Shopping Centre.

Percy M. Fox, D.C.L., D.Sc.F.,
Bermuda
Chairman of the Board of the Great Lakes Paper Company, Limited; Director of Argus Corporation Limited, The Royal Trust Company, St. Lawrence Corporation Limited.

Harold J. Howard,
Calgary, Alberta
Assistant General Manager of Crown Trust Company; Director of Petrol Oil and Gas Company.

William F. James, Ph.D.,
Toronto, Ontario
Partner of James, Buffam & Cooper; Vice-President and Director of Alminex Limited; Director of Anglo-Scandinavian Investment Corporation of Canada Ltd., Cygnus Corporation Ltd., Canadian Gas and Energy Fund Ltd., Eldorado Nuclear Ltd., Falconbridge Nickel Mines Limited, National Trust Company Ltd., The Patino Mining Corporation, Bridge & Tank Co. of Canada Ltd., Dome Mines Limited, The Granby Mining Company Limited.

Harry I. Price,
Toronto, Ontario
Chairman of the Board of Harry Price Hilborn Insurance Limited; Chairman of the Executive Committee and Director of Burns Foods Limited; Director of Cygnus Corporation Limited, Bridge & Tank Co. of Canada Limited.

John B. Sangster,
Regina, Saskatchewan
President of Mid-West Motors Limited; Chairman of the Board and Chief Executive Officer of Modern Packaging Co. Ltd.; Director of Guaranty Trust Co. of Canada, Natural Resources Growth Fund Ltd.

Renault St. Laurent, Q.C., LL.D.,
Quebec City, Quebec
Partner of St. Laurent, Monast, Desmeules and Walters; Director of Air Canada, Anglo-Canadian Pulp and Paper Mills, Ltd., Banque Canadienne Nationale, Sicard Inc., The Imperial Life Assurance Company of Canada, Scott Paper Limited, Canadian National Railways, Canadian Breweries Limited, Gazdu Quebec Inc., Rothmans of Pall Mall Canada Ltd., Industrial Acceptance Corporation Limited.

*G. Harry Thompson, M.C., D.U.C.,
Calgary, Alberta
Chairman of the Board of Calgary Power Ltd.; Vice-President and Director of Montreal Engineering Company Ltd.; Director of TransCanada PipeLines Limited, Natural Resources Growth Fund Ltd., Ottawa Valley Power Co.

Alvin J. Walker,
Montreal, Quebec
Director of Holt Renfrew and Co. Ltd., Canadian Fur Investments Ltd., Grouped Income Shares Ltd., Windsor Hotel Ltd., Imperial Trust Co. Ltd., Q.S.P. Ltd.

Ralph F. Will,
Calgary, Alberta
Private Investments.

*Member Executive Committee

NINGS AR14

	1970	1969
. . . .	$12,733,000	$11,085,000
. . . .	1,904,000	1,884,000
	14,637,000	12,969,000
. . . .	1,857,000	1,729,000
. . . .	1,934,000	1,980,000
. . . .	2,746,000	1,527,000
. . . .	978,000	897,000
. . . .	3,878,000	2,293,000
. . . .	869,000	961,000
	12,262,000	9,387,000
. . . .	2,375,000	3,582,000
. . . .	1,129,000	1,047,000
. . . .	1,246,000	2,535,000
. . . . .	1,469,000	–
. . . . .	$ (223,000)	$ 2,535,000
. . . .	$ 0.18	$ 0.38
. . . . .	(0.21)	–
. . . . .	$ (0.03)	$ 0.38

f accounting for its investments in 50% owned companies.
of such companies is reflected currently in income rather
figures for 1969 have been restated to reflect this change.
in its depletion calculation, exploration expenditures made
been restated to reflect the exclusion of these expenditures

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

For the Six Months ended June 30, 1970

	1970	1969
FUNDS WERE OBTAINED FROM		
Net earnings before extraordinary item	$ 1,246,000	$ 2,535,000
Add charges to earnings not requiring funds including depreciation, depletion and deferred income taxes	4,857,000	3,508,000
Net flow of funds from operations	6,103,000	6,043,000
Prepayment of future natural gas sales	1,680,000	–
Issuance of capital stock	70,000	38,990,000
Sale of investments	10,159,000	–
Long term borrowings - net	–	3,006,000
	$18,012,000	$48,039,000
FUNDS WERE USED FOR		
Property, plant and equipment	$13,331,000	$13,569,000
Repayment of long term debt	4,671,000	4,261,000
Dividends	2,628,000	3,501,000
Investments		
Atlantic Richfield Company	–	4,715,000
TransCanada PipeLines Limited	–	338,000
Other investments - net	72,000	141,000
	20,702,000	26,525,000
Increase (decrease) in working capital	(2,690,000)	21,514,000
	$18,012,000	$48,039,000

annual report 1970

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Ralph F. Will,
Calgary, Alberta
Private Investments.

*Member Executive Committee

OFFICERS

J. B. Weir, *Chairman of the Board*
R. A. Brown, Jr., *President and Managing Director*
R. W. Campbell, *Executive Vice-President and General Manager*
G. J. Blundun, *Vice-President, Exploration*
R. B. Coleman, *Vice-President, Secretary and General Counsel*
I. M. Drum, *Vice-President, Special Projects*
M. P. Paulson, *Vice-President, Production and Pipelines*
R. F. Phillips, *Vice-President, Administration*
W. T. Wilkinson, *Vice-President, Marketing*
B. B. Rombough, *Treasurer*
J. P. Crone, *Comptroller*
F. G. Mitchell, *Assistant Secretary*

HEAD OFFICE

304 Sixth Avenue S.W.
Calgary 1, Alberta

AUDITORS

Riddell, Stead & Co.

SOLICITORS

Macleod Dixon
Calgary, Alberta
Dunnington, Bartholow & Miller,
New York, N.Y.

BANKERS

Canadian Imperial Bank of Commerce
The Chase Manhattan Bank

TRANSFER AGENTS

Crown Trust Company
The Chase Manhattan Bank

REGISTRARS

Crown Trust Company
The Canadian Bank of Commerce Trust Company

LISTINGS

Toronto Stock Exchange
Vancouver Stock Exchange
Calgary Stock Exchange
Montreal Stock Exchange
American Stock Exchange
Pacific Coast Stock Exchange

Drilling on Home's North Sea acreage

Contents

highlights

Gross revenue up 8.3% to $30,008,000 highest in Company's history.

Net earnings after extraordinary items up 20% to $5,447,000 or $0.78 per share.

Net cash flow from operations up 13.0% to $14,005,000 or $1.99 per share.

New commercial natural gas discovery at Malton in the United Kingdom. Lockton Gas Plant preparing to go on-stream.

Production of crude oil and natural gas liquids up 14% to 18,994 barrels per day for a new Company record.

Natural gas sales up 27.6% to 89.2 million cubic feet per day for a new Company record.

Exploration acreage increased by 6% to 4,852,000 net acres.

Disposals of investments realized $25,738,000.

Disposal of interest and commitments in Trans Alaska Pipeline System.

ANNUAL GENERAL MEETING
The annual general meeting of shareholders will be held at 11:00 a.m. April 23, 1971 at the head office of the Company, Calgary, Alberta.

The Company publishes a book entitled "Financial and Operating Information for the Use of Security Analysts". This book is available to any shareholder who directs a request to the Public Relations Department.

Lockton Gas Plant—Yorkshire, England

to the shareholders

ROBERT A. BROWN, JR.

On behalf of the Board of Directors, I am pleased to present the forty-second Annual Report of Home Oil Company Limited.

Record levels for production were established by your Company in 1970. Crude oil and natural gas liquids production reached 18,994 barrels per day, an increase of 14%, while natural gas sales were 89.2 million cubic feet per day, an increase of 27.6%. Operated pipeline throughputs increased by 12.7% to reach a new high of 223,845 barrels per day.

As will be seen from the detailed analysis in the financial section of this report, Home Oil Company's gross income and cash flow showed substantial improvement over 1969. For the first time in the Company's history gross income exceeded $30,000,000. Cash flow was $14,005,000, up 13% from 1969. Net earnings per share after extraordinary items were 78 cents compared with 66 cents in 1969.

The Company took a number of important steps in 1970 to substantially restructure its financial position. These included the sale of certain securities for $25,738,000, repayment of the German bank loan and rearrangement of domestic loans. The gain arising from the sale of securities together with a currency exchange gain on the German loan increased earnings by $2,461,000.

As previously announced, the Company discovered a commercial natural gas reservoir at Malton in Yorkshire, England, located 12 miles from our Lockton gas field. The new success considerably enhances the prospects of finding important additional natural gas deposits on our Yorkshire properties. The Lockton gas processing plant is currently preparing to go on-stream with an initial sales volume of 45 million cubic feet per day. Home has a 50% interest in sales after royalties. This will result in a net increase in the Company's total gas sales of 19 million cubic feet per day commencing April 1971. The Lockton plant has an initial design capacity of 100 million cubic feet per day and consideration is being given to using spare capacity to process production from the Malton discovery. Further drilling is scheduled in Yorkshire during 1971.

The Ekofisk oil discovery in the North Sea is particularly significant in view of unsettled conditions in world oil markets. Home Oil was fortunate in being able to join a consortium which obtained a 56,000 acre block of North Sea acreage in the general area of the Ekofisk discovery. Our first well is presently drilling on this production licence in which Home has a 6.38% interest. Further permits in the North Sea are being offered by the British Government and the Company will be applying for certain of these.

Home is continuing to extend its search for oil and gas in prospective areas throughout the world. A licence in which Home has a 21.25% interest was obtained on 454,000 acres off the east coast of Malta. Home will be conducting a marine seismic survey in 1971 to be followed by the drilling

of one well. A permit covering 120,000 acres in which Home has a 15% interest was obtained early in 1971 off the west coast of Italy. Exploration plans are similar to those for the Malta prospect.

Exploration activity on the North Slope of Alaska remained dormant as a result of the continuing delay in the granting of a permit for construction of the proposed crude oil pipeline to Valdez. Home fully supports Canadian Government proponents of a pipeline through Canada to the U.S. as a preferable alternative to a tanker operation from Valdez down the West Coast. The Company and its associates have decided to delay drilling the first well on Tract 73 pending resolution of the pipeline situation.

The relaxation of U.S. import quotas late in the year ended a prolonged period of restrictions on Canadian oil markets. It is to be hoped that Canadian oil will ultimately have completely free access to the U.S. markets. The 1971 demand for Alberta light and medium gravity crude is expected to be unprecedented in the history of the province. Your Company is expanding producing and pipeline facilities to ensure that it shares fully in the increased demand. Of equal importance was the increase in price of 25 cents per barrel announced in December. This will increase Home's gross revenue by approximately $1,800,000 in 1971.

The market for natural gas continues to improve both in Canada and the United States. Home will continue its active search for natural gas reserves in Western Canada.

The Company shares your concern at the growing threat to our environment caused by pollution in its many forms. As an explorer and producer of fossil fuels, Home is at present actively participating in several substantial pollution control projects and is co-operating to the fullest extent with conservation authorities.

The year through which we have passed has been one of difficulty and uncertainty for both our industry and the Canadian economy. In such circumstances it is gratifying to report that we received the energetic and enthusiastic support of our employees in meeting the many challenges which confronted us. I take great pleasure in again being able to record the appreciation of the Board of Directors for this co-operation.

Submitted on behalf of the Board of Directors.

R. A. Brown Jr.

President and Managing Director

Calgary, Alberta
March 4, 1971

review of activities

EXPLORATION

Major exploration projects in Alberta, British Columbia, Yukon Territory, East Coast of Canada, Alaska and the United Kingdom resulted in expenditures of $14,525,000.

During the year the Company participated in the drilling of thirteen exploratory wells of which two were in Alaska, seven in Alberta, one in British Columbia, two in Yorkshire and one in the North Sea. The drilling program resulted in two gas wells in the Brazeau-Sunchild area of Alberta and one in Yorkshire, England. Six wells were dry and abandoned and four were still drilling at year end. In addition, twenty-one exploratory wells were drilled on Company lands under various farmout arrangements which resulted in four oil wells and one gas well, all in the Manyberries area of Alberta. Fourteen were dry and abandoned and two were still drilling at year end.

The Company had varying interests in the drilling of seven development wells of which two were oil wells in the Medicine River and Swan Hills areas of Alberta, three were gas wells and the other two were still drilling at year end.

Seismic crews were operated in northeastern British Columbia, and north central Alberta.

The Company participated in the operation of geological surface and gravity meter parties on a block of lands of 806,040 acres in the Yukon Territory in which the Company's interest varies from 25% to 33.3%. Home also participated in a marine seismic program off the Nova Scotia continental shelf.

A seismic crew was operated for five months in Yorkshire, England, resulting in the drilling of the Malton gas discovery well. It is proposed to drill at least two more exploratory wells in Yorkshire in 1971 and operate a seismic crew during the summer months, seeking structures similar to those at Lockton and Malton.

"Sea Quest," currently drilling for Home and associates, North Sea

Home and associates were awarded Block 30/2 comprising 55,856 acres in the United Kingdom portion of the North Sea, on which marine seismic had previously been performed and in which the Company owns a 6.38% interest. It lies about 35 miles to the northwest of the major oil discovery at the Ekofisk field, and about 10 miles southwest of the gas and condensate Cod field, both in Norwegian waters. A well was spudded on this block in mid-December and is still drilling. Other companies have discovered oil to the northwest, south, and southwest of Block 30/2.

The Company is presently engaged with others in obtaining seismic data in unawarded areas in the United Kingdom portion of the North Sea, as well as participating with others in a marine seismic program in the English Channel.

During January to May, 1970, the Company completed the planned seismic program on

its leases and the lands under farmout from Atlantic Richfield on the North Slope of Alaska. The drilling of two deep wells was completed, Nora Federal No. 1 and Bush Federal No. 1, both of which were dry and abandoned. Further expenditures of approximately $2,000,000 are required for Home to complete its commitment under the farmout agreement. There are no immediate plans to spend this remaining balance.

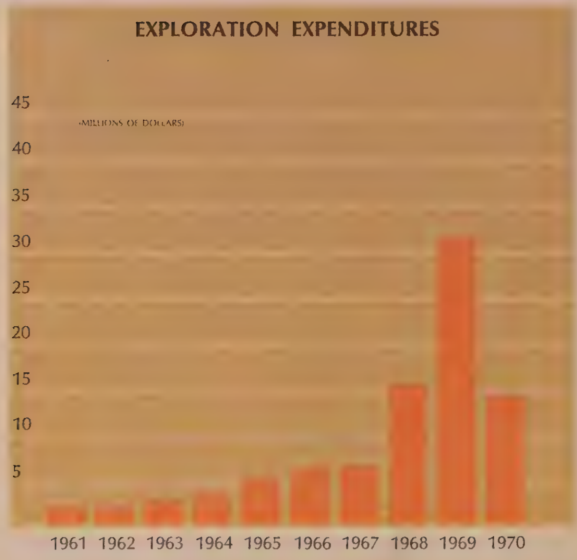
Atlantic Richfield Company has announced a significant new oil find 25 miles west of their Prudhoe Bay field discovery well. Oil was encountered in a 340 foot interval in the Upper Cretaceous formation. The new discovery is located 11 miles north of wholly owned Home Oil lands in the area.

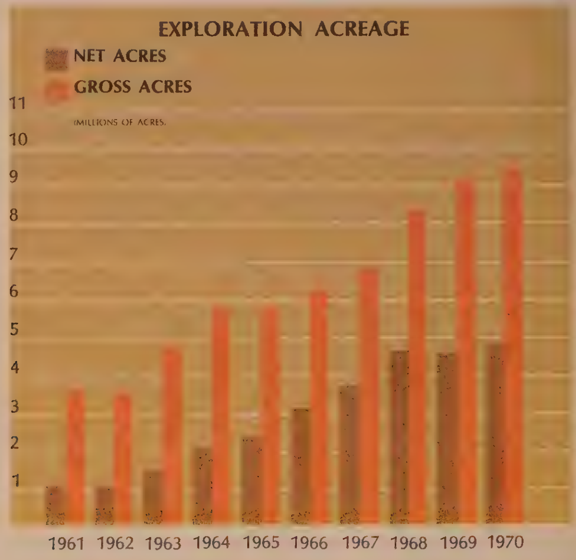
Home participated in gravity, seismic and photogeological surveys in the Yukon River delta in Alaska, as well as in a reconnaissance marine seismic survey of the Chukchi Sea over the continental shelf off the west coast of the State.

At the end of the year the Company's land interests amounted to 9,333,965 gross acres, or 4,851,870 net acres. Important land acquisitions during the year were 280,819 gross acres in northeastern British Columbia, 1,009,404 net acres in Hudson Bay, 55,856 gross acres in the United Kingdom portion of the North Sea, and the Maltese offshore licence.

MINING

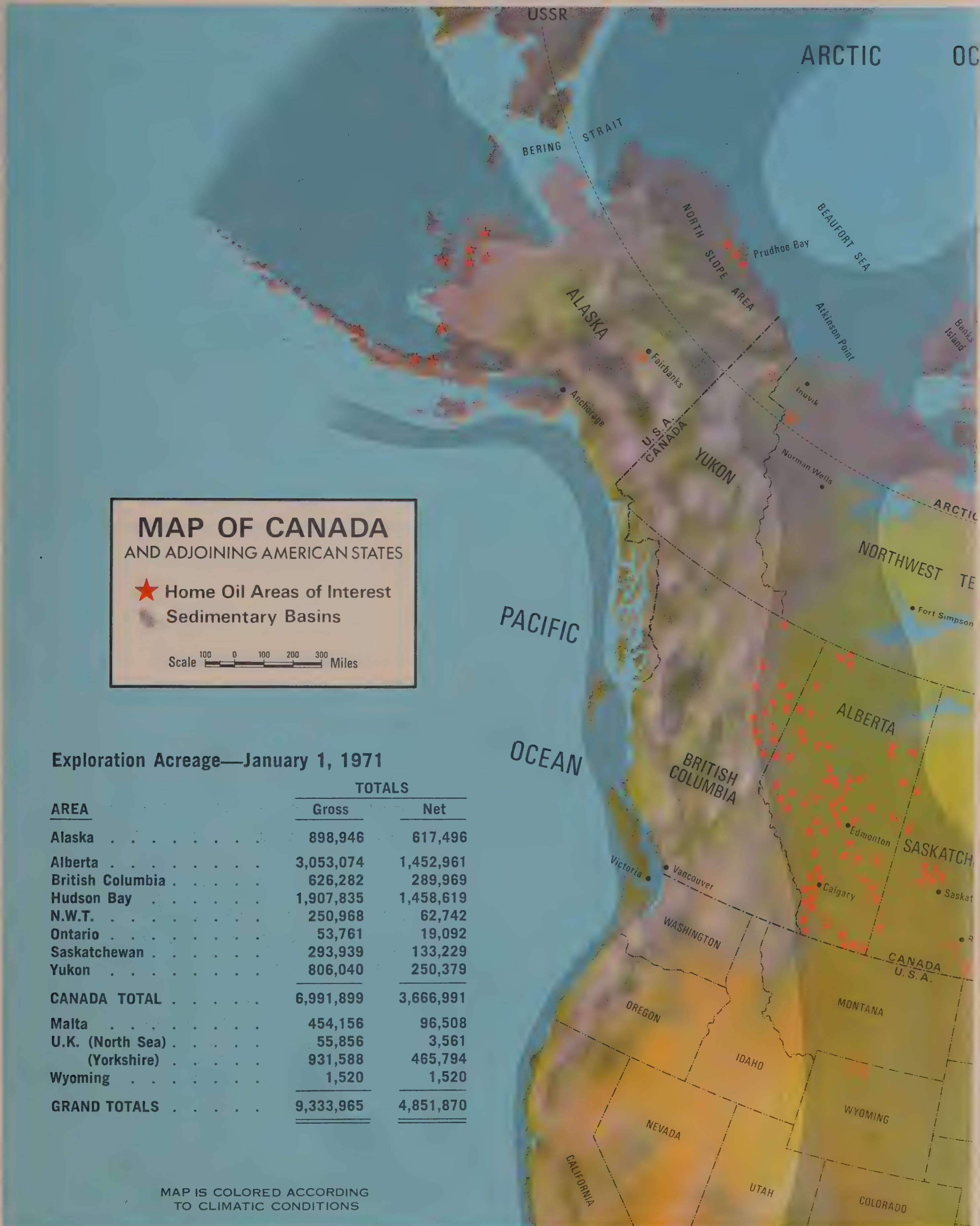
Home continued its participation with major mining companies in thirteen mining syndicates in 1970 in British Columbia, Ontario, and New Brunswick. A total of 79 properties in 61 different areas were evaluated, some of which will be explored further in 1971. The Company had an interest varying from 12.2% to 33.3% in 1,518 claims. Exploration for minerals, including coal, will continue in 1971.





MAP OF CANADA

AND ADJOINING AMERICAN STATES



Exploration Acreage—January 1, 1971

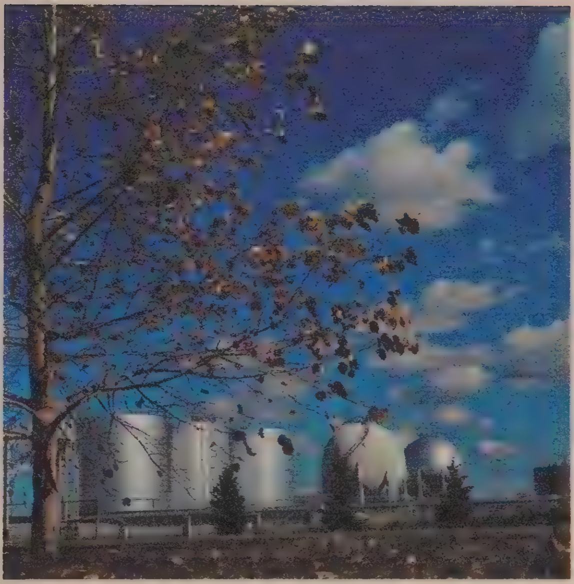
AREA	TOTALS Gross	Net
Alaska	898,946	617,496
Alberta	3,053,074	1,452,961
British Columbia	626,282	289,969
Hudson Bay	1,907,835	1,458,619
N.W.T.	250,968	62,742
Ontario	53,761	19,092
Saskatchewan	293,939	133,229
Yukon	806,040	250,379
CANADA TOTAL	6,991,899	3,666,991
Malta	454,156	96,508
U.K. (North Sea)	55,856	3,561
(Yorkshire)	931,588	465,794
Wyoming	1,520	1,520
GRAND TOTALS	9,333,965	4,851,870

EAN
Ellesmere Island
Heiberg Island
Ellef Ringnes Island
PANARCTIC KING CHRISTAIN (Gas Well)
PANARCTIC DRAKE POINT (Gas Well)
Melville Island
Bathurst Island
Devon Island
Prince of Wales
Victoria Island
Baffin Island
GREENLAND
(DENMARK)
ICELAND
DAVIS STRAIT
CIRCLE
RRITORIES
ATLANTIC OCEAN
HUDSON BAY
MANITOBA
LABRADOR
NEWFOUNDLAND
EWAN
ONTARIO
QUEBEC
P.E.I.
NEW BRUNSWICK
Halifax
NOVA SCOTIA
Winnipeg
MAINE
Montreal
Ottawa
NORTH DAKOTA
MINNESOTA
VT.
NH
Toronto
WISCONSIN
SOUTH DAKOTA
NEW YORK
MASS
MICHIGAN
New York
NEBRASKA
IOWA
PENNSYLVANIA
ILLINOIS
INDIANA
OHIO

reserves

A summary of the Company's crude oil, natural gas liquids, natural gas and sulphur reserves as at January 1, 1971, is shown in the table below. No reserves have been included for the new gas discovery at Malton in the United Kingdom since evaluation of production tests is still in progress.

The Company's proven crude oil reserve life index at the 1970 production rates is approximately 25 years.



L.P.G. spheres and condensate storage
Carstairs-Crossfield Gas Processing Plant, Alberta

RESERVES–JANUARY 1, 1971
(After deduction of Royalties)

	Crude Oil (barrels)	**Natural Gas Liquids** (barrels)	**Natural Gas** (1,000 cu. ft.)	**Sulphur** (long tons)
Proven Developed	138,067,900	16,889,300	800,233,000	1,484,500
Proven Undeveloped	59,300	–	3,496,000	–
Total	138,127,200	16,889,300	803,729,000	1,484,500

The above figures do not include probable additional reserves.

England And The North Sea
INSET MAP OF COMPANY LANDS
YORKSHIRE - N.E. ENGLAND
GROSS ACRES 931,588
NET ACRES 465,764
MAP IS COLORED ACCORDING TO CLIMATIC CONDITIONS
NORTH SEA
NORWAY
SWEDEN
DENMARK
GERMANY
NETHERLANDS
BELGIUM
FRANCE
SCOTLAND
WALES
ENGLAND
COMPANY LANDS IN THE NORTH SEA
GROSS ACRES - 55,856
NET ACRES - 3,561
OIL WELLS
OIL and GAS
DRILLING LOCATIONS
OIL FIELDS
GAS FIELDS
GAS WELLS
GAS PIPELINES
PROPOSED
UNDER CONSTRUCTION
STATUTE MILES
COD
EKOFISK
Rough
West Sole
Ann
Viking
Indefatigable
Hewett
Leman Bank
Schoonebeck
Bacton
Canvey Terminal
LONDON


MEDITERRANEAN AREA
Home Oil Land Holdings
LEGEND
OIL FIELDS
GAS FIELDS
GAS WELLS
Scale
0
50
100
150
Miles
MAP IS COLORED ACCORDING TO CLIMATIC CONDITIONS
YUGOSLAVIA
ITALY
ADRIATIC SEA
ROME
NAPLES
TIRANE
ALBANIA
GREECE
GROSS ACRES 120,000
NET ACRES 18,000
TYRRHENIAN SEA
IONIAN SEA
PALERMO
SICILY
TUNIS
SHELL PERMIT
GOZO
MALTA
HOME PERMIT
AQUITAINE PERMIT
MEDITERRANEAN SEA
COMPANY LANDS NEAR MALTA
GROSS ACRES 454,156
NET ACRES 96,508
INSET MAP
GOZO
SHELL PERMIT
MALTA
HOME PERMIT
AQUITAINE PERMIT
INSET MAP OF COMPANY LANDS NEAR MALTA
TRIPOLI
NORTH AFRICA
12°
16°
20°
44°
40°
36°
32°
15'
30'
45'
15°
45

production

The daily average production of crude oil and natural gas liquids reached the record level of 18,994 barrels per day in 1970, an increase of 14% over 1969.

Natural gas sales increased to a record 89.2 million cubic feet per day in 1970. This was a 27.6% increase over the 1969 sales of 69.9 million cubic feet per day.

Sulphur sales increased from 31,947 long tons in 1969 to 39,447 long tons in 1970, however as a result of depressed prices caused by the world over-supply situation, sales revenue decreased sharply.

The increase in crude oil production came primarily from our Swan Hills, Pembina, Virginia Hills and Mitsue properties as a direct result of the increase in demand for Alberta crude. The first full year of gas production from Marten Hills and Whitecourt contributed substantially to the increased gas sales.

In anticipation of continuing high demands for Alberta crude, an extensive program is in progress to increase our production capability, particularly in the Swan Hills area. Initially, 60 wells previously shut-in are being placed on production and additional wells can be used as required. The necessary surface production equipment including pressure maintenance and gas conservation facilities are also being provided.

Construction of the Lockton gas plant in the United Kingdom is substantially completed and the plant should go on-stream in April 1971. It is expected that the initial sales volume will be 45 million cubic feet per day, escalating over four years to an average daily rate of 80 million cubic feet. The plant has a design capacity of 100 million cubic feet per day. Negotiations for the sale of gas from the Company's new discovery at Malton are now in progress. This well is located five miles from the Lockton plant and consideration is being given to utilizing the spare plant capacity to process Malton gas.

Construction of gathering facilities–Swan Hills, Alberta

sources of production

Net Wells December 31 1970	Producing Field	1970	1969	1968	1967	1966
	CRUDE OIL – barrels					
75.73	Swan Hills	2,653,892	2,427,584	2,348,800	1,998,839	1,782,699
54.24	Pembina	735,871	553,598	503,138	457,138	456,209
14.47	Mitsue-Saulteaux	641,313	549,163	338,560	305,297	284,113
12.83	Virginia Hills	518,072	441,368	376,543	387,458	395,857
107.60	Turner Valley	319,889	316,674	313,902	311,963	337,751
15.80	Harmattan-Elkton	253,743	248,452	253,586	265,944	263,957
30.70	Leduc-Woodbend	193,242	185,846	233,793	251,048	253,183
47.15	Others	342,398	350,235	432,871	440,366	405,702
358.52	Total Crude Oil	5,658,420	5,072,920	4,801,193	4,418,053	4,179,471
	Daily Average	15,503	13,898	13,118	12,104	11,451
	NATURAL GAS LIQUIDS – barrels					
–	Carstairs-Elkton	706,833	521,951	514,550	387,382	303,089
2.51	Harmattan	228,061	230,267	206,206	188,046	198,791
–	Nevis	82,455	62,427	65,884	61,158	54,368
–	Calgary	72,041	65,389	61,789	53,614	67,878
–	Others	184,787	130,279	117,297	104,091	87,186
2.51	Total Natural Gas Liquids	1,274,177	1,010,313	965,726	794,291	711,312
	Daily Average	3,491	2,768	2,639	2,176	1,949
	Total Crude Oil and Natural Gas Liquids	6,932,597	6,083,233	5,766,919	5,212,344	4,890,783
	Daily Average	18,994	16,666	15,757	14,280	13,400
	NATURAL GAS – 1,000's of cubic feet					
3.85	Carstairs-Elkton	11,817,769	10,752,025	9,321,641	8,668,788	9,269,126
3.26	Nevis	5,114,445	4,035,372	3,684,793	3,976,057	3,351,456
5.00	Marten Hills	2,882,899	222,580	–	–	–
.81	Calgary	2,007,333	1,779,762	1,756,112	1,367,066	1,679,361
2.47	Whitecourt	1,508,676	87,954	–	–	–
9.97	Turner Valley	1,422,340	1,549,785	1,529,102	1,434,901	863,453
–	Jumping Pound	1,175,931	1,366,668	1,209,256	1,100,354	465,686
–	Swan Hills	1,134,374	958,204	969,602	894,799	738,070
.66	Crossfield	815,439	866,973	618,356	578,217	409,364
.32	Sarcee	724,496	844,526	1,019,135	1,024,733	1,072,345
.25	Nordegg-Brazeau	544,568	–	–	–	–
2.97	Retlaw	473,047	427,633	557,233	512,309	492,531
1.59	Harmattan-Leduc	472,163	487,502	544,716	447,422	20,682
.80	South Elkton	366,756	383,851	418,647	393,703	415,636
1.95	Pendor	213,816	340,265	403,520	294,253	569,152
3.87	Others	1,901,276	1,426,724	1,626,472	1,584,355	1,374,240
37.77	Total Natural Gas	32,575,328	25,529,824	23,658,585	22,276,957	20,721,102
	Daily Average – 1,000's of cubic feet	89,247	69,945	64,641	61,033	56,770

pipelines

Federated Pipe Lines Ltd.

Federated Pipe Lines Ltd., 50% owned by the Company, increased its throughput by 14.8% to an average of 184,175 barrels per day from 160,408 barrels per day in 1969. The 90 mile – 16 inch looping program commenced in 1969 was completed early in 1970 increasing the mainline capacity from 197,000 to 267,000 barrels per day. The mainline has accommodated a peak throughput rate of 237,000 barrels per day. In view of the expected increased shipments from the high reserve fields in the Swan Hills area during 1971 it appears that a further mainline expansion will be necessary to achieve a peak handling capability of approximately 325,000 barrels per day.

The Federated system is connected to approximately 24% of Alberta's current recoverable crude oil reserves.

Cremona Pipe Line Division

Gatherings of crude oil, condensate and butane by the Company's Cremona Pipe Line Division increased by 3.7% from 38,267 barrels per day in 1969 to 39,670 barrels per day in 1970.

L.P.G. MARKETING

The past year saw continued improvement in the operating results of Union Petroleum Corporation, Home's wholly owned L.P.G. marketing company.

The market for natural gas liquids continued to improve during the year and prices started to increase in the second quarter. As a result of the developing energy crisis in the United States this trend is likely to continue.

Products handled exceeded 270 million gallons, compared with 240 million gallons in 1969. The increase of 12.5% was handled without any addition to Union's fleet of 450 tank cars. The facilities of Hardisty Storage Limited, which include over 50 million gallons of underground storage, achieved a higher utilization in 1970 than in any previous year.

financial review

In 1970, Home Oil's gross revenue from all sources was $30,008,000, an increase of $2,299,000 or 8.3% over 1969. This was mainly attributable to increased sales of crude oil, natural gas and natural gas liquids.

Net earnings, before extraordinary items, amounted to $4,057,000 or $0.58 per share, compared with $5,003,000 or $0.73 per share earned in 1969. Net earnings for the year, including an extraordinary gain of $1,390,000 from the sale of securities, amounted to $5,447,000 or $0.78 per share compared with $4,537,000 or $0.66 per share in 1969. The Company follows the policy of providing fully for deferred income taxes and in the year 1970, $2,502,000 was charged against earnings for this item. As at December 31, 1970, accumulated deferred income taxes amounted to $25,545,000.

In 1970 after conducting further exploratory work, the Company included in its North American depletion base exploration expenditures incurred on the North Slope of Alaska. The inclusion of these expenditures adversely affected net earnings in 1970 to the extent of $1,622,000.

Net cash flow from operations was $14,005,000 compared with $12,390,000 in 1969, an increase of 13%.

Expansion of Federated Pipe Lines system

Dividends of fifty cents per share were again declared on both Class A and Class B shares. A number of significant transactions were carried out during 1970, including the disposition of the following investments:

	Shares	Proceeds
Calgary Power Ltd.	475,000	$10,104,800
TransCanada PipeLines Limited	500,000	15,491,200
		$25,596,000

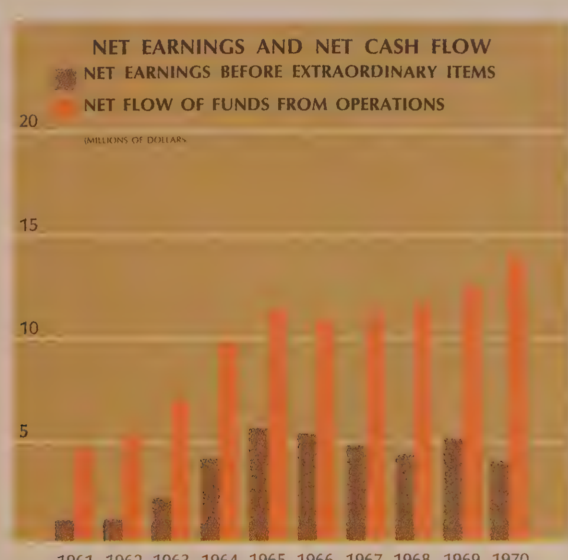
The Company also negotiated a $10 million production loan with its Canadian bankers. The loan is repayable over a six-year period and is secured by certain producing properties of the Company.

The proceeds from the sale of investments, the production loan, and an increased line of credit with its Canadian bank enabled the Company to repay the German bank loan and terminate the related line of credit.

The Company disposed of its 2% investment and commitments in the proposed crude oil pipeline from the North Slope to the port of Valdez on the Gulf of Alaska at cost plus interest.

Total long and short term debt was reduced from $114,400,000 at December 31, 1969 to $93,272,000 at December 31, 1970. Total indebtedness is secured by a combination of pledges against certain of the Company's reserves and assets together with the Company's marketable securities. Of the total debt outstanding at December 31, 1970, $52,275,000 was secured by reserves and other assets and the remaining $40,997,000 was covered by marketable securities. The total value of the Company's marketable securities at December 31, 1970 was $62,711,000.

Another important transaction completed in 1970 will have the effect of reducing certain long term debt payments by approximately $15,000,000 over the ensuing four to five years. This reduction results from renegotiation of terms with the two institutional holders of the 6⅛% and 5⅞% Secured Bonds of Home and United Oils. Previously, repayment of the bonds was calculated as a percentage of production revenue from the Swan Hills, Virginia Hills, Pembina and Inverness fields. Due to increased production, repayments on the bonds were substantially in excess of those originally anticipated. Effective January 1, 1971 monthly payments will be made based on fixed annual amounts with a compensating increase in the interest rate.



auditors' report

To the Shareholders
Home Oil Company Limited

We have examined the consolidated balance sheet of Home Oil Company Limited and subsidiaries as at December 31, 1970 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in accounting for investments in 50% owned companies as explained in Note 1 to the consolidated financial statements.

Calgary, Alberta
February 19, 1971

Riddell, Stead & Co.
Chartered Accountants

consolidated statement of source and use of funds

For the year ended December 31, 1970

	1970	1969 (Note 1)
Funds were obtained from		
Net earnings before extraordinary item	$ 4,057,000	$ 5,003,000
Adjustment for non-cash items and difference between earnings of 50% owned companies and dividends received	9,948,000	7,387,000
Net flow of funds from operations	14,005,000	12,390,000
Sale of investments	25,738,000	858,000
Issuance of capital stock	1,188,000	38,975,000
Long term borrowings	10,000,000	32,541,000
Prepayment of future natural gas sales	1,680,000	–
	$52,611,000	$84,764,000
Funds were used for		
Property, plant and equipment	$17,967,000	$38,887,000
Repayment of long term debt	39,230,000	7,624,000
Dividends	3,517,000	3,501,000
Investment in Atlantic Richfield Company	–	10,835,000
Net increase in other non-current assets	1,245,000	558,000
	61,959,000	61,405,000
Increase (Decrease) in Working Capital	(9,348,000)	23,359,000
	$52,611,000	$84,764,000

The accompanying notes are an integral part of this financial statement.

consolidated statement of earnings

For the year ended December 31, 1970

	1970	1969 (Note 1)
Revenue		
Operating revenue	$26,283,000	$23,523,000
Investment income (Note 1)	3,725,000	4,186,000
	30,008,000	27,709,000
Expense		
Operating	4,121,000	3,610,000
General and administrative	4,018,000	4,019,000
Depletion	5,540,000	3,209,000
Depreciation	1,965,000	1,818,000
Interest and expense on long term debt (Note 8)	6,128,000	5,872,000
Other interest	1,677,000	1,893,000
	23,449,000	20,421,000
Net earnings before deferred income taxes	6,559,000	7,288,000
Deferred Income Taxes	2,502,000	2,285,000
Net Earnings before extraordinary item	4,057,000	5,003,000
Extraordinary Item		
Gain (loss) on sale of investments – net	1,390,000	(466,000)
Net Earnings	$ 5,447,000	$ 4,537,000
Earnings Per Share		
(based on average number of shares outstanding)		
Net earnings before extraordinary item	$ .58	$ .73
Extraordinary item	.20	(.07)
Net earnings	$ .78	$ .66

The accompanying notes are an integral part of this financial statement.

consolidated statement of retained earnings

For the year ended December 31, 1970

	1970	1969
Balance at beginning of year		
As previously reported	$34,079,000	$33,028,000
Adjustment for change in accounting for 50% owned companies (Note 1)	548,000	563,000
As adjusted	34,627,000	33,591,000
Net earnings	5,447,000	4,537,000
	40,074,000	38,128,000
Dividends declared		
Class A shares	2,369,000	2,353,000
Class B shares	1,148,000	1,148,000
	3,517,000	3,501,000
Balance at end of year	$36,557,000	$34,627,000

The accompanying notes are an integral part of this financial statement.

consolidated balance sheet as at december 3

assets

	1970	1969
Current Assets		
Cash	$ 4,551,000	$ 5,830,000
Accounts receivable	8,252,000	8,812,000
Inventory of liquefied petroleum gas at lower of cost and realizable value	1,233,000	837,000
	14,036,000	15,479,000
Investments		
Quoted securities (Note 2)	75,696,000	100,043,000
50% owned companies (Note 1)	3,996,000	3,818,000
	79,692,000	103,861,000
Property, Plant and Equipment, at cost (Notes 1 and 7)	233,578,000	216,173,000
Accumulated depletion and depreciation	68,957,000	61,717,000
	164,621,000	154,456,000
Other Assets and Deferred Charges		
Unamortized debt financing expense	208,000	261,000
Miscellaneous (Note 3)	2,263,000	832,000
	2,471,000	1,093,000
	$260,820,000	$274,889,000

Approved on behalf of the Board:

R. A. Brown Jr. Director

Robert W. Campbell Director

The accompanying notes are

liabilities

	1970	1969
Current Liabilities		
Bank indebtedness (Note 2)	$ 27,997,000	$ 21,364,000
Accounts payable and accrued charges	7,080,000	7,293,000
Dividends payable	1,767,000	1,751,000
Current maturities on long term debt	5,496,000	4,027,000
	42,340,000	34,435,000
Prepayment of Future Natural Gas Sales	1,680,000	–
Long Term Debt (Notes 2 and 8)	59,779,000	89,009,000
Deferred Income Taxes (Note 4)	25,545,000	23,086,000

shareholders' equity

	1970	1969
Capital Stock (Note 3)		
Authorized		
1,000,000 Preferred shares, par value $50 each		
7,000,000 Class A shares of no par value		
5,000,000 Class B shares of no par value		
Issued		
(including shares held by subsidiary companies – see below)		
4,767,194 Class A shares (1969 – 4,706,194)	83,405,000	82,245,000
2,572,905 Class B shares (1969 – 2,571,405)	14,496,000	14,468,000
	97,901,000	96,713,000
Retained Earnings	36,557,000	34,627,000
	134,458,000	131,340,000
Less – cost of 275,506 Class B shares held by subsidiary companies	2,982,000	2,981,000
	131,476,000	128,359,000
	$260,820,000	$274,889,000

ntegral part of this financial statement.

notes to consolidated financial statements

AS AT DECEMBER 31, 1970

1. Accounting Policies

(i) Principles of Consolidation

The consolidated financial statements include the accounts of all companies in which the Company has ownership of more than 50% of the voting capital stock. These include the following wholly owned subsidiaries: Home Oil Company of Canada, Home Oil of Canada Limited, Home Pipe Line Company, Union Petroleum Corporation and its wholly owned subsidiary, Can-Am Liquids Co., Ltd. and the following substantially owned subsidiaries: Coastal Oils Limited, Foothills Oil and Gas Company, Limited, and United Oils, Limited and its wholly owned subsidiary, Madison Oils, Inc.

In 1970, the Company adopted the equity method of accounting for its investments in 50% owned companies and applied such change retroactively. Under the equity method, the Company's investment in such companies is carried on the balance sheet at cost plus its share of undistributed earnings or losses. The Company's share of the net earnings of these companies (included in investment income in the consolidated statement of earnings) is reflected currently in income rather than when realized through dividends. This change did not materially affect the Company's net earnings for 1970.

Current assets and current liabilities of foreign subsidiaries were converted to Canadian dollars using the exchange rate at the date of the balance sheet. Fixed assets were converted at the rate in effect at the time the assets were acquired. Revenue and expense items were converted using the average rate of exchange for the year.

(ii) Full Cost Method of Accounting

The Company and its subsidiaries follow the full cost method of accounting whereby all costs of exploring for and developing oil, gas and related reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities. Costs associated with operations in North America, including the North Slope of Alaska, are depleted using the unit of production method based upon estimated recoverable North American reserves as determined by Company engineers. Costs associated with exploration in the United Kingdom including all overhead expenses incurred prior to the commencement of production, will be depleted based upon reserves discovered in the United Kingdom.

Prior to 1970, the Company's evaluation of its holdings on the North Slope of Alaska was at a preliminary stage and accordingly it was considered inappropriate to include the related land acquisition and exploration costs in its depletion base. In 1970, after conducting further exploratory work, the Company added all its Alaskan land acquisition and exploration costs totalling approximately $41.5 million to its North American depletion base. This resulted in an additional depletion provision for 1970 of $1,622,000.

(iii) Depreciation

Depreciation of plant and equipment, applied on the straight line method, is based upon the estimated service life of each group of assets.

2. Investments

Details of quoted securities are as follows:

	Number of Shares	Cost	Quoted Market Value December 31, 1970
Atlantic Richfield Company			
– Common shares	422,936	$49,320,000	$28,041,000
– $2.80 Convertible preferred shares	53,440	3,487,000	2,855,000
TransCanada PipeLines Limited			
– Common shares	800,000	20,280,000	28,000,000
Other		2,609,000	3,815,000
		$75,696,000	$62,711,000

The above investments are pledged to secure certain long term debt and the Company's bank borrowings.

3. Capital Stock

(i) Dividends

There are restrictions on the payment of dividends on the Class B shares and of dividends in excess of 25c per annum on the Class A shares under the provisions of the deeds of trust and mortgage securing certain of the outstanding long term debt. Under the most restrictive provision, the amount permitted thereunder for payment of dividends was in excess of the retained earnings as at December 31, 1970.

(ii) Shares Reserved for Exercise of Warrants

There were 109,965 Class A shares reserved at December 31, 1970 for issuance upon the exercise, on or before July 1, 1976, of warrants to purchase 76,975 shares at $14.55 U.S. per share and 32,990 shares at $17.66 U.S. per share. Effective January 1, 1971, the expiry date of these warrants was extended to April 30, 1980 in connection with the renegotiation of the terms of the 5⅞% and 6⅛% Secured Bonds (Note 8).

(iii) Options to Purchase Capital Stock

During 1970, the Company granted options for the purchase of 76,000 Class A shares by officers and directors and 24,500 Class A shares by other employees. Of these options, which are exercisable for a period of ten years, 10,000 were exercisable at $14.00 per share and the remainder at $20.00 per share. In all cases the exercise price was equal to the market price of the shares at the granting date. In the case of options granted to officers and directors, the Company agreed to accept Notes, the terms of which are described below, in payment for the exercise price of shares purchased by them.

During the year, options to purchase 61,000 Class A shares and 1,500 Class B shares were exercised and options on 71,000 Class A shares were terminated.

A summary of the transactions relating to optioned shares is as follows:

	Officers and Directors	Other Employees	Total
Class A Shares			
Outstanding January 1, 1970	70,000	–	70,000
Issued	76,000	24,500	100,500
Exercised	61,000	–	61,000
Terminated	70,000	1,000	71,000
Outstanding December 31, 1970	15,000	23,500	38,500
Class B Shares			
Outstanding January 1, 1970	1,500	–	1,500
Exercised	1,500	–	1,500
Outstanding December 31, 1970	–	–	–

All options on Class A shares were granted under the Officers' and Key Employees' Share Option Plan under which 250,000 Class A shares were set aside for issuance on the exercise of stock options. At December 31, 1970, 150,500 Class A shares were available for option under the Plan which terminates February 28, 1979.

(iv) Shares Issued During the Year

During 1970, officers and directors subscribed for 61,000 Class A shares of the Company pursuant to share option agreements. Notes totalling $1,160,000 were received from the optionees in payment for their subscriptions. The notes, which are included on the balance sheet under miscellaneous other assets, are secured by the purchased shares, are non-interest bearing and are payable at the earlier of the date of voluntary termination of employment of the optionee, the date of sale of the acquired shares by the optionee, or ten years from the subscription date.

In addition, the Company issued 1,500 Class B shares to officers on exercise of stock options for $28,000 cash.

4. Income Taxes

It is the policy of the companies to make charges against earnings for depreciation of plant and equipment based upon the estimated service life of each group of assets, and to amortize the cost of exploring for and developing oil, gas and related reserves using the unit of production method. The companies, however, claim the maximum capital cost allowances and exploration and development costs allowed in calculating income taxes payable. In 1970, the amounts claimed for income tax purposes exceeded the provisions for depreciation and depletion charged against earnings and as a result there were no income taxes payable. The income taxes deferred have been charged to earnings and credited to "Deferred Income Taxes."

5. Contingent Liabilities and Commitments

The Company has guaranteed the indebtedness and certain other obligations of associated companies to the extent of approximately $9,400,000.

6. Remuneration of Directors and Officers

During 1970 the Company and its subsidiaries paid remuneration of $41,000 to the Company's sixteen directors in their capacity as directors, and remuneration of $466,000 to the Company's twelve officers in their capacity as officers. Three of the officers are also directors of the Company.

7. Property, Plant and Equipment

The following is a summary of the cost of property, plant and equipment and the related accumulated depletion and depreciation as at December 31, 1970:

	Cost of Assets	Accumulated Depletion* and Depreciation	Net
Petroleum and natural gas leases and rights, including exploration and development (Note 1)			
– North America	$179,054,000	$ 53,781,000*	$125,273,000
– United Kingdom	6,642,000	–	6,642,000
Production equipment	26,827,000	8,761,000	18,066,000
Land, buildings, pipeline property and other equipment	21,055,000	6,415,000	14,640,000
	$233,578,000	$ 68,957,000	$164,621,000

8. Long Term Debt

	December 31, 1970	1969
Home Oil Company Limited		
5½% Secured Notes, due September 1, 1971, Series B ($744,000 U.S.) (subject to annual sinking fund payments)	$ 752,000	$ 1,142,000
6½% Secured Bonds, due January 31, 1975 ($3,900,000 U.S.)*	3,709,000	4,566,000
6⅛% Secured Bonds, Series A ($2,618,000 U.S.)†	2,674,000	5,688,000
5⅞% Secured Bonds, Series B ($17,665,000 U.S.)†	18,956,000	19,785,000
6⅞% Secured Bonds, due January 1, 1983 ($6,489,000 U.S.)*	6,999,000	7,560,000
6¼% Collateral Trust Bonds, due April 1, 1983 (subject to annual sinking fund payments)	13,000,000	14,000,000
6¾% Mortgage, maturing January 1, 1978 (payable in monthly installments)	888,000	985,000
Bank Loan (DM100,000,000)	–	29,500,000
Production Bank Loan, evidenced by demand note (payable in 24 equal quarterly installments)	10,000,000	–
United Oils, Limited		
6⅛% Secured Bonds, Series A ($1,071,000 U.S.)†	1,133,000	2,251,000
5⅞% Secured Bonds, Series B ($4,516,000 U.S.)†	4,842,000	5,039,000
Union Petroleum Corporation		
Bank Loan, due March 30, 1972 ($1,999,000 U.S.)	2,155,000	2,312,000
Other ($155,000 U.S.)	167,000	208,000
	65,275,000	93,036,000
Less current minimum maturities	5,496,000	4,027,000
	$59,779,000	$89,009,000

*Subject to monthly payments based on production from pledged properties.

†These bonds were formerly to be repaid monthly from a percentage of the production revenue generated from certain oil properties of the Company. Projections indicated that the bonds would be repaid substantially earlier than their stated maturity dates. Effective January 1, 1971, the terms of the bonds were amended by substituting fixed monthly payments of principal and interest for the payments based upon production revenue. In consideration of what was in effect an extension of the life of the bonds, interest rates and maturity dates were revised as follows:

	Original Interest Rates	Revised Interest Rates	Revised Maturity Dates
Home Oil Company Limited			
Series A	6.125%	9.45%	Sept. 30, 1973
Series B	5.875%	8.20%	April 30, 1980
United Oils, Limited			
Series A	6.125%	9.35%	Nov. 30, 1973
Series B	5.875%	8.10%	Mar. 31, 1980

All U.S. issues are recorded on the balance sheet in Canadian dollars based on the exchange rate in effect at the date of receipt of the proceeds, with the exception of the 6⅛% Secured Bonds, Series A, issued by United, which are stated at the rate of exchange in effect as at the date of acquisition of control of United.

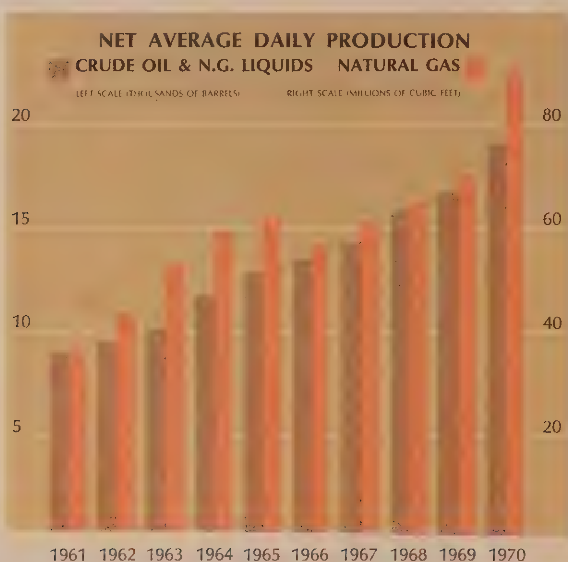
Interest and expense on long term debt in the Statement of Earnings was reduced by a currency exchange gain of $1,071,000 realized on repayment of the Deutsche Mark Bank Loan.

The estimated amount of long term debt maturities and sinking fund requirements for the four years subsequent to 1971 are as follows: 1972 – $7.4 million, 1973 – $6.6 million, 1974 – $8.2 million, 1975 – $6.4 million.

a ten year review 1961–1970

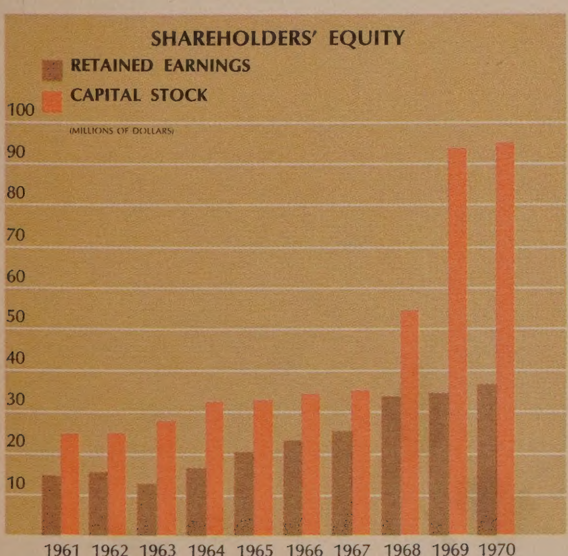
		1970	1969
Earnings and Net Flow of Funds	Gross Revenue	$ 30,008,000	27,709,000
	Net Earnings (before Extraordinary Items)	$ 4,057,000	5,003,000
	Per Share	$ .58	.73
	Extraordinary Items	$ 1,390,000	(466,000)
	Per Share	$ .20	(.07)
	Net Flow of Funds from Operations	$ 14,005,000	12,390,000
	Per Share	$ 1.99	1.81
Balance Sheet	Working Capital (Deficiency)	$ (28,304,000)	(18,956,000)
	Investment in other Companies	$ 79,692,000	103,861,000
	Property, Plant and Equipment—Net	$164,621,000	154,456,000
	Long Term Debt (Less Current Maturities)	$ 59,779,000	89,009,000
	Deferred Income Taxes	$ 25,545,000	23,086,000
	Capital Stock	$ 94,919,000	93,732,000
	Retained Earnings	$ 36,557,000	34,627,000
Exploration and Development	Exploration Expenditures	$ 14,525,000	31,564,000
	Development Expenditures	$ 3,253,000	3,887,000
	Gross Exploration Acreage	9,334,000	9,176,000
	Net Exploration Acreage	4,852,000	4,577,000
Drilling Activity	Gross Working Interest Wells Drilled	14	38
	Net Oil Wells	0	1
	Net Gas Wells	2	4
	Net Dry Wells	4	11
Proven Developed Reserves	Crude Oil and Natural Gas Liquids—barrels	154,957,000	155,586,000
	Natural Gas—thousand cubic feet	800,233,000	788,258,000
	Sulphur—long tons (*not available)	1,485,000	1,454,000
Production and Pipeline Operations	Crude Oil and Natural Gas Liquids Production—barrels per day	18,994	16,666
	Natural Gas Sales—thousand cubic feet per day	89,247	69,945
	Sulphur Sales—long tons	39,447	31,947
	Cremona Pipe Line Division		
	Daily Average Gatherings—barrels	39,670	38,267
	Federated Pipe Lines Ltd.—(50% owned)		
	Daily Average Gatherings—barrels	184,175	160,408
Shares and Dividends	Dividends Declared Per Class A Share	$ .50	.50
	Dividends Declared Per Class B Share	$ .50	.50
	Number of Shares Outstanding—end of year	7,065,000	7,002,000
	Number of Shareholders	15,300	12,600

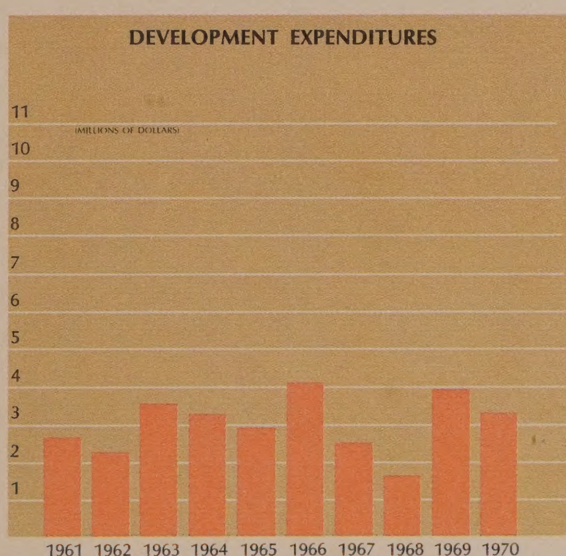
NOTES: (1) Earnings per share are calculated on the basis of average number of shares outstanding during the year.



1968	1967	1966	1965	1964	1963	1962	1961
25,272,000	24,092,000	23,410,000	22,075,000	19,438,000	14,472,000	13,032,000	11,547,000
4,320,000	4,857,000	5,331,000	5,638,000	4,140,000	2,248,000	1,266,000	1,166,000
.81	.96	1.07	1.15	.87	.52	.28	.26
6,343,000	261,000	–	516,000	1,012,000	1,034,000	–	–
1.18	.05	–	.11	.21	.24	–	–
11,610,000	11,130,000	10,880,000	11,273,000	9,718,000	6,941,000	5,399,000	4,631,000
2.16	2.20	2.18	2.30	2.04	1.60	1.19	1.02
(42,315,000)	(3,529,000)	4,764,000	(6,873,000)	3,659,000	(1,001,000)	(3,317,000)	1,281,000
93,987,000	64,814,000	52,596,000	50,590,000	36,545,000	34,108,000	41,330,000	40,883,000
120,681,000	106,798,000	101,401,000	92,204,000	85,716,000	64,559,000	60,744,000	58,326,000
64,092,000	90,333,000	86,624,000	69,941,000	67,287,000	47,069,000	52,430,000	55,943,000
20,801,000	18,415,000	16,309,000	14,269,000	11,797,000	9,339,000	7,956,000	7,150,000
54,758,000	35,092,000	34,352,000	32,962,000	32,186,000	29,796,000	24,854,000	24,820,000
33,592,000	25,804,000	23,167,000	20,295,000	16,558,000	12,714,000	15,335,000	14,583,000
15,282,000	6,597,000	6,387,000	5,296,000	3,495,000	2,933,000	2,045,000	2,165,000
1,621,000	2,434,000	4,032,000	2,876,000	3,259,000	3,528,000	2,226,000	2,618,000
8,319,000	6,872,000	6,236,000	5,762,000	5,759,000	4,712,000	3,561,000	3,609,000
4,640,000	3,701,000	3,118,000	2,382,000	2,035,000	1,408,000	1,007,000	1,055,000
39	49	54	78	52	68	65	78
0	8	3	11	16	8	9	11
4	3	6	3	1	3	2	1
15	13	11	21	8	9	10	11
156,923,000	152,885,000	151,625,000	152,489,000	114,937,000	84,419,000	71,725,000	73,196,000
779,859,000	698,697,000	721,606,000	677,001,000	601,833,000	555,300,000	506,660,000	497,713,000
1,493,000	1,636,000	1,241,000	*	*	*	*	*
15,757	14,280	13,400	12,809	11,623	10,042	9,402	8,908
64,641	61,033	56,770	61,823	59,269	52,497	43,136	36,073
38,182	42,182	20,343	14,714	19,913	6,569	4,392	3,555
39,268	37,193	36,265	36,348	33,496	31,862	29,260	17,597
156,001	140,235	128,462	110,719	82,252	67,727	58,918	42,257
.50	.50	.50	.50	.35	.25	.25	.25
.50	.50	.50	.50	.35	.25	–	–
6,102,000	5,091,000	5,046,000	4,936,000	4,842,000	4,565,000	4,548,000	4,542,000
13,200	13,000	13,700	13,900	12,800	12,800	13,000	13,000

(2) Above data incorporates retroactive adjustments.





investments

The Company held the following investments in marketable securities at December 31, 1970:

Company	Holdings		Cost	Market Value December 31, 1970
Atlantic Richfield Company	422,936	Common shares	$49,320,000	$28,041,000
	53,440	$2.80 Convertible preferred shares	3,487,000	2,855,000
TransCanada PipeLines Limited ..	800,000	Common shares	20,280,000	28,000,000
Other			2,609,000	3,815,000
			$75,696,000	$62,711,000

The holdings of Atlantic Richfield Company shares are unchanged from December 31, 1969 while the investment in TransCanada PipeLines Limited was reduced by the sale of 500,000 shares during 1970. The market value of the investment in Atlantic Richfield Company declined from $42,486,000 at December 31, 1969 to $30,896,000 at December 31, 1970. This decline can be attributed to a combination of general market conditions coupled with the continuing delay in the awarding of a permit for the construction of the Alaska pipeline. A synopsis of the 1970 financial and operating results for the above companies follows:

Atlantic Richfield Company

Earnings for the year 1970 before extraordinary items were $205,630,000, or $3.64 per share. This represents a reduction of 10.6% from 1969. The reduction is attributable to a substantial increase in the provision for U.S. federal income tax as well as the impact of higher labour costs and unexpected refinery operating difficulties.

Sales and operating revenues increased by 2% to $3,239,265,000 from $3,162,385,000 in 1969. Sales of refined petroleum products on a worldwide basis averaged 831,100 barrels per day against 845,900 the previous year. The decline was more than accounted for by the termination of certain supply agreements with BP Oil Corporation at the end of the first quarter of 1970.

Production of crude oil and natural gas liquids in North America averaged 441,700 barrels per day, down 3% from 1969. Natural gas sales for 1970 increased by 4% to 2,056 million cubic feet per day. A 4% increase was also recorded in sales of petrochemical products of 5,100 tons per day.

A new oil discovery on the North Slope of Alaska was announced in February 1971. Heavy gravity oil was discovered in a 340 foot interval in the Upper Cretaceous formation at a wildcat well located 25 miles west of the Arco-Humble Prudhoe Bay State No. 1 oil well. This is the most extensive thickness of Upper Cretaceous oil bearing sand encountered to date in North Slope Alaska drilling operations.

TransCanada PipeLines Limited

Sales of natural gas increased by 21% to 737,922 million cubic feet and a new peak day for natural gas receipts of 2.7 billion cubic feet was established during December. The 1970 operating revenue was $281,485,000 compared with $232,620,000 the previous year. Net income before provision for dividends on preferred shares increased to $19,579,000 from $14,866,000 in 1969. Net earnings per common share were $1.70 compared with $1.12 for 1969. In comparing 1970 results with 1969 it should be noted that the latter year was adversely affected by start-up problems experienced by the Great Lakes System and the temporary suspension for maintenance of the Northern Ontario section.

The 1970 construction program costing $65,000,000 was completed on schedule. Exports have started to the United States at the increased level of 275 million cubic feet per day authorized in September.

A $238,000,000 two-year expansion program commencing in 1971 is being planned. This includes substantial pipeline looping in Northern Ontario, the 1971 portion of which is expected to cost $80,000,000 and will be financed by a debenture issue. TransCanada PipeLines Limited feels that present returns on shareholders' investments are far from adequate to attract the new equity capital essential to accomplishment of the expansion program. Hearings on an application for an increase in rates before the National Energy Board commenced in February, 1971.